

STATEMENT OF
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ON THE CONSUMER BENEFITS OF ECONOMIC DEREGULATION OF TRUCKING
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Introduction

Good morning, Mr. Chairman, and Members of the Committee.

I am delighted to be here this morning to discuss the issues involving the regulation and taxation of trucking, on behalf of the Bush Administration. It is especially heartening to see this subcommittee take notice of the important issues that still remain unresolved about trucking deregulation, even after the substantial reforms of the last ten years. President Bush and Secretary Skinner are committed to achieving the benefits of complete economic deregulation of the trucking industry, and this was a key point of the recently released National Transportation Policy.

Regulation That Remains

In spite of the 1980 reforms and the enormous benefits that have already accrued to both shippers and carriers, a great deal of regulation remains in place, costing us all billions of dollars a year. At the federal level, much of the regulation is simply a costly paperwork burden with no benefits for shippers, consumers or the trucking industry.

Entry Regulation

While operating authority in the interstate trucking industry is very easy to attain for an applicant who is "fit, willing and able", and can pass the Department's safety fitness test, the

application process creates a blizzard of paperwork, not only by the thousands of applicants, but also by the hundreds of Interstate Commerce Commission (ICC) employees who, figuratively if not literally, rubberstamp the applications. Virtually no operating authority requested are rejected by the ICC.

Rate Regulation

Under the Interstate Commerce Act, all tariffs charged by common carriers must be filed with the ICC. This means that all truckers which "hold themselves out" to serve the general public, as opposed to serving a relatively few shippers under contract, must place on file at the ICC the rates they charge for every type of commodity they carry between any points they serve. For the thousands of carriers, commodities, origins and destinations, this means that millions of rates and tons of paper must be filled out and sent to the Commission each time the rates change.

Technically, each tariff must be examined for compliance with the Commission's tariff filing rules. In addition, the ICC may begin a proceeding to determine the lawfulness of a tariff provision on its own initiative, or, for example, on the complaint of a shipper that a tariff is unreasonably high, or by complaint of a competing carrier that a particular tariff rate is too low.

Not that there is any good reason to review and approve rates that are independently established -- competition among the 43,000 or so carriers should ensure that the rates are "reasonable" and not "unduly discriminatory." Just as in the case of entry requirements, the harm is the waste of resources, both human and otherwise, that the tariff filing requirement induces.

Collective Ratemaking

A serious anomaly of trucking regulation, both at the federal level and in many states, is that carriers may still collude with each other in setting the rates they intend to charge. In virtually all other industries, such behavior would be considered a felony under the antitrust laws. However, the 1948 Reed-Bulwinkle Act permits carriers to form "rate bureaus," or trade associations, to operate under an exemption from the antitrust laws, and collectively set the prices they charge. Not even for these collusively-set rates is there any effective review by the Commission.

The 1980 reforms removed a small part of this antitrust immunity, but it still remains for most of the ratemaking activities of the rate bureaus, especially their setting of "general rate increases" (that is, the application of an across-the-board percentage increase applying to the vast majority of rates charged by bureau members.) This antitrust immunity permits substantial collective ratemaking activity that seriously undermines the pro-competitive goals of the Motor Carrier Act of 1980 (MCA). The Motor Carrier Ratemaking Study Commission, set up by the 1980 Act and comprised of Members of Congress, carriers, and shippers, concluded that this antitrust immunity confers none of the benefits intended in the 1948 Act, raises rates higher than they would otherwise be, and should be eliminated.

Let me turn now to issues of state regulation and taxation.

State Economic Regulation

Currently eight states do not regulate trucking operations conducted wholly within their own borders. Delaware and New

Jersey never regulated trucking; Florida deregulated in 1980, Arizona deregulated in 1981, followed by Maine (1982), Wisconsin (1983), Alaska (1984) and Vermont (1985). Although a few more states have considered deregulation, 42 states continue to regulate the rates, routes, and services of carriers, as well as entry into the trucking industry -- including many movements which are simply continuations of interstate or foreign shipments (e.g., delivery within California of paper picnic products manufactured in Wisconsin). In some states, the regulation is fairly loose, modeled after post-1980 ICC regulatory policy; but in many others, entry into the industry is so strictly regulated that the almost total lack of competition leads to rates significantly higher than rates for comparable interstate service.

If the consumers in these regulated states bore these burdens by themselves, we could wish them well and tell them it's their problem, to be solved by their state legislatures. But that is not the case: firms today are regional, national and multi-national in scope, and we all pay for these inefficiencies when we buy any of the products of these firms. In addition, there is the enormous energy waste because of extra truck mileage from the inefficient sourcing and citing decisions caused by distorted trucking rates.

For example, Texas motor carriers are protected by a strict entry policy against new competitors -- the two largest carriers control 60 percent of Texas intrastate truck traffic, and the ten largest control 97 percent. Such a level of concentration is not necessarily a problem by itself; for example, the airline industry has eight carriers controlling about 92 percent of the national

market. However, the big differences are that Texas carriers have antitrust immunity granted by the state to fix prices, and the Texas Railroad Commission's entry policy ensures that there will be no new competitors to worry about undercutting the existing carriers' prices. The result is that Texas truck rates are about 40 percent higher than -- and, in many cases more than double -- the comparable interstate rates, and an estimated cost to Texas shippers and carriers of about \$760 million per year. Much of that cost is passed on to the rest of us.

Texas entry policy is so strict that it took United Parcel Service (UPS) almost 20 years to obtain the authority required to carry packages within the state. Even today, UPS is allowed to carry packages only up to 50 pounds, whereas its operations everywhere else are geared to packages up to 70 pounds.

Before UPS received intrastate Texas authority, Mary Kay Cosmetics, located in Dallas, found it cheaper to send out a fully loaded tractor-trailer 200-miles to Shreveport, Louisiana, every day with merchandise for distribution back inside Texas. Today, Mary Kay saves about \$50,000 annually by shipping via UPS intrastate.

Texas is losing shippers, and not attracting others, because of the high cost of Texas transportation. Texas shippers are basing their distribution centers in places like Arkansas (GE, Whirlpool-KitchenAid), and Oklahoma (Edison Plastics) -- rather than Dallas.

Procter and Gamble (P&G) finds it cheaper to ship Crisco 600 miles from Jackson, TN. than from Dallas, TX. (80 miles) to its customers in Tyler, TX. P&G is moving the manufacturing of all

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its soap products from Dallas to Alexandria, LA. because of high Texas freight rates.

Texas may be a worst case example of the inefficiencies of state economic regulation of the trucking industry, but it is by no means the only example. In a study sponsored by the Department, but not yet released, Professor Bruce Allen (University of Pennsylvania) estimates that the total cost of state regulation -- and conversely, the gains we could expect from deregulation at the state level -- is about \$3 billion per year.

State Registration and Tax Procedures

Current requirements imposed by the states on interstate motor carriers have evolved over the past 60 years from simple registration of vehicles to a complex structure involving registration, fuel taxes, privilege and use taxes, property taxes, third structure taxes (e.g., ton-mile, weight-distance, and gross receipts taxes), ad valorem and sales taxes and fees for initiating tax accounts, purchasing decals and implementing safety programs. Along with these multiple fees have come a myriad administrative requirements. As these fees and requirements have multiplied, their impact on interstate carriers has become increasingly burdensome.

Our "Section 19 report," was prepared in response to the Motor Carrier Act of 1980, studied and developed joint DOT/ICC recommendations to provide a more efficient and equitable system of state regulations and procedures for interstate motor carriers. A household goods carrier noted in that study, that to legalize one typical tractor and trailer for operation in 48 states for one year required filing 179 applications and permits and writing 76

checks. In addition, 290 fuel tax, third-structure tax and miscellaneous mileage-based reports had to be completed for 42 States involving 32 different formulas and 48 different forms.

If the tractor were driven 100,000 miles during the year, the company would process approximately 300 log, mileage, and fuel records and 285 fuel receipts. The fuel accounting required a detailed audit, as there were 34 sets of requirements in the 38 States with fuel tax reporting laws.

Our best estimate of the paperwork cost of this lack of uniformity in state requirements, over and above the actual fees and taxes paid, is between \$1.0 and \$3.2 billion per year.

A number of studies and task forces over the last 15 years have detailed the problems of non-uniformity in state requirements and the inefficiencies they engender, and have strongly urged the states to make their requirements more uniform. The most recent effort was a multi-year task force of the National Governors' Association (NGA), which concluded with a "consensus agenda" for achieving uniformity.

Many states have made a great deal of effort to improve requirements in the area of vehicle registration. Between 1974 and 1982, 26 states had achieved relative uniformity of vehicle registration procedures by joining the International Registration Plan (IRP). By 1990, 40 states have joined IRP and another two have already applied. However, the last six states are unlikely to join IRP anytime soon because they fear revenue losses stemming from the changes.

Some progress has also been made with respect to fuel tax administration. In 1982, a model uniform fuel tax agreement was

developed, but only three states employed it. In 1986, the NGA endorsed this agreement, the International Fuel Tax Agreement (IFTA), and since that time 15 states have become members, with another three or four expected by the end of this year. Another agreement, also endorsed by the NGA, the New England Regional Fuel Tax Agreement, has three members, but its procedures differ somewhat from those of IFTA, reducing the benefits of the uniformity efforts.

On the other hand, little progress has been made regarding uniformity in third-structure taxes. For example, eight or so states have weight-distance taxes, all of them different, without even a common form for a trucker to fill out. Retaliatory taxes have virtually been eliminated, but due primarily to litigation efforts by the trucking industry.

Thus, while there has been some progress within the context of our urging the states to voluntarily achieve uniformity, movement is slow, especially with many state legislatures meeting only every two years and in light of the relatively low priority given to these issues in some states. Meanwhile, the "meter is running" at the rate of up to \$3 billion per year in extra costs imposed on truckers -- and indirectly on shippers and consumers.

The Urgency For Additional Reforms

While we have every reason to be pleased with the 1980 regulatory reforms and the benefits we have received, we have no reason to be satisfied. We believe that our transportation reforms have given us a "leg up" on many of our trading partners which still maintain heavy-handed regulation of trucking and other hindrances to the smooth, fast, and efficient handling of freight

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within as well as between countries. However, that advantage is short-lived and about to be overturned.

From all reports, truck transportation within the European Economic Community (EC) is extremely slow and inefficient, as well as more costly than that in the U.S. Until very recently, when gradual liberalization was introduced, most EC nations continued to regulate trucking both internally and cross-border; in addition, time-consuming customs inspections continue to be conducted at most border crossings. This would be tantamount to stopping a Pennsylvania truck at each state border on a trip to California, for purposes of customs declaration and clearance.

By the end of 1992, the EC plans to abolish virtually all regulation -- both between and within countries -- as well as border customs inspections. At that time, the cost advantage that U.S. shippers gained in 1980 could be lost because of the anticipated gains in EC transport efficiency. European goods will become less costly, relative to ours, in both domestic and foreign markets. Therefore, we must take whatever action is necessary to achieve fully the benefits of competition and to maintain our competitive advantage over European goods, including elimination of the remaining vestiges of economic regulation of the trucking industry, at both federal and state levels and elimination of inefficient state paperwork requirements.

Proposed Legislative Solutions

This Administration, as was the Reagan Administration, is totally committed to solving these problems. To that end, we have submitted bills to this and the last two Congresses that would

totally eliminate all economic regulation of the interstate trucking industry.

The ICC Sunset bill, H.R. 2211, introduced in May 1989, would address all the remaining regulatory problems I have discussed above, among other reforms. This bill eliminates all ICC regulation of the following industries: trucking, intercity bus, household goods freight forwarder, broker, pipeline (other than water, gas or oil), interstate water carrier, interstate rail passenger, and ferry. It transfers remaining jurisdiction for regulation of railroad freight rates, services, practices and abandonments intact to the Department of Transportation.

In the process of eliminating ICC regulation, the bill would remove all antitrust immunity from trucking rate bureaus, and end all non-safety-related entry provisions and tariff filing. It would also prevent states and other non-federal bodies from regulating the interstate and intrastate rates, routes, and operations of interstate motor carriers.

In addition, H.R. 2211 would address the "uniformity" issue by requiring the Department to submit a report, including recommendations, to Congress within two years concerning progress by the states in implementing the National Governors' Association Consensus Agenda for uniform state regulation of motor carriers.

Another bill, recently introduced by Representative Hastert as H.R. 4261, would confine itself to addressing the state regulation and uniformity problems. Its approach to state economic regulation is very similar to that of H.R. 2211. Its approach to the uniformity problem is to require all the states to join existing state compacts dealing with vehicle registration

and fuel taxation, and to eliminate states' authority to require interstate carriers to register their ICC operating authority with the states.

H.R. 4261 would also establish general standards to govern the states' methodologies for imposing taxes and fees on interstate carriers. These standards are derived from principles handed down by the Supreme Court in several landmark cases, and would not affect either the form or rate of the taxes or fees states can impose. The standards would require that any state or local tax or fee imposed on the operations of an interstate motor carrier must be fairly apportioned based on an equitable measure of actual contact with the taxing jurisdiction; not discriminate against interstate carriers; and be fairly related to services provided by the state or locality.

Although the Administration has not yet taken an official position on the Hastert bill, its goals appear to be consistent with the goals established in the National Transportation Policy released earlier this month. And although it does not attempt to eliminate any of the remaining federal regulation of trucking, it would eliminate problems which cause the bulk of the costs imposed by existing regulation -- that is, state economic regulation and non-uniformity of state registration and taxation of motor carriers.

Conclusion

To summarize, Mr. Chairman, we took an enormous first step ten years ago to reduce trucking regulation, and we are receiving great benefits as a result. As an appendix to my written statement, I have included a discussion of the benefits that have

resulted from the 1980 MCA. However, much regulation remains, and we must remove it soon or forgo the full benefits of competition, as well as lose an important trade advantage to the European Community. Several bills, including one by the Administration, already exist which would address these remaining regulations, and they deserve careful consideration by the Congress. We fully support efforts to complete this task. I will now be happy to answer any questions you or the Committee may have.

APPENDIX

The Benefits of Trucking Deregulation to Commerce and Consumers: 1980-1990

I. History Before Deregulation

While the railroad industry had been regulated since 1887, it was not until the 1930's that the railroads faced significant competition from a new mode of transportation -- the trucking industry. In the hopes of stabilizing conditions in this relatively young industry, as well as placing both industries on a "level playing field" competitively, Congress enacted the Motor Carrier Act of 1935.

Trucks and railroads were subject to relatively strict economic regulation for the next 40 years. Other sectors of interstate transportation were also subjected to federal regulation: intercity buses and brokers (1935), airlines (1938), barges (1940), and freight forwarders (1942).

During this period trucking matured into a stable and profitable industry. However, prior to passage of the Motor Carrier Act of 1980 (MCA), carriers and shippers were subject to numerous impediments that got in the way of providing efficient and economical truck transportation. These impediments included Interstate Commerce Commission (ICC) operating authority that was both hard to get and limited in scope, resulting in empty hauls and out-of-the-way routing. Rate regulation prevented carriers from offering rate discounts for volume shippers or specially tailored services. Entry and rate regulation acted

together to prevent any meaningful competition among carriers.

Empty Backhauls

Carriers try to minimize the amount of time their trucks are empty. When empty they are incurring costs but earning no revenue. Some empty time occurs because there is no return traffic at the destination point, or the freight is not adaptable to the particular vehicle (for example, palletized freight could not be carried in a tank truck). These are termed "natural traffic imbalances," and result in a certain proportion of "empty backhauls." However, many empty backhauls resulted when a motor carrier's ICC-granted operating authority prohibited or severely limited the offering of transportation services in both directions between two points. The carrier, in order to return home or to go pick-up another shipment, had to do so with an empty truck.

Historically, the regulatory system sought to limit entry into the industry and stifle unbridled competition. Often as a response to protests from incumbent carriers wishing to hold on to their current customers, the ICC often granted carriers only limited authority, that is, granted authority provided that only certain specifically named commodities or goods could be carried, and sometimes only in one direction or only by a specific route between point A and point B.

The old system produced significant operating inefficiencies. Even when carriers were allowed to provide new service, the Commission often attached burdensome restrictions to the certificate. Typical examples might be: authority to carry glass containers, not exceeding one-gallon capacity, from three points in Pennsylvania to one point in Ohio, or authority to carry skeet

and trap equipment from one point in Indiana to five Midwestern States. These carriers had to return home without collecting a return load -- they had no authority to carry freight on the return trip home. This kind of fragmented authority led to empty backhauls, or to expensive return trips to the ICC to seek additional authority to eliminate uneconomic and wasteful operating restrictions.

According to a study conducted by the ICC in 1976, large empty trucks of all types generated, on average, 20.4 percent of the truck miles on the Interstate Highway System. Specialized trucks such as tank or other bulk commodity trucks accounted for higher percentages -- about 40 percent -- because traffic imbalances were greater.

Circuitous Routing

Circuitry restrictions also prevented carriers from operating in an efficient manner. Circuitous routes or out-of-the-way routing came about in several ways. In the early days of motor transportation, routes were determined by the availability of traffic. Particularly in sparsely settled areas, a circuitous route might tap a number of potential sources to permit the gathering of traffic, while a more direct route might traverse a desert.

Another source of circuitous routes was when carriers merged to form a larger route structure by "tacking" together ICC certificates of authority. For example, a regular-route carrier authorized to serve New York City from Washington, D.C. might merge with another carrier authorized to serve Washington from Chicago. Then the merged carrier could serve Chicago to New York,

but only via Washington. This may result in a through route between important points which was not the original intent of the regulatory agency to create.

Some examples of circuitous routing taken from a 1975 study conducted by the Federation of Rocky Mountain States include:

- o Garrett Freight Lines service between Denver and Albuquerque was 730 miles versus a direct distance of 422 miles. The direct route from Denver to Albuquerque is over Interstate 25, generally south of Denver. The authority of Garrett included a route from Denver to Salt Lake City via Grand Junction, CO and Crescent Junction, Utah. Another route went from Salt Lake City to Albuquerque via Crescent Junction. The carrier could, therefore, tack these two routes at Crescent Junction to provide service from Denver to Albuquerque. Garrett was, therefore, required to operate an additional 308 miles (73 percent) in excess of the short line miles to provide service between these points.
- o Barber Transportation Company service between Denver and Omaha was 894 miles versus a direct distance of 540 miles. The direct route is on I-80 running generally east and west. Barber had authority between Denver and Rapid City, SD and separate authority between Rapid City and Omaha via Sioux Falls, SD. If Barber were to provide service between Denver and Omaha by tacking these two authorities at Rapid City, the route would be 354 miles (66 percent) longer than the short route.
- o Illinois-California Express (ICX) service between Denver and Salt Lake City was 1,142 miles versus a direct distance of

512 miles. ICX was authorized to operate between Denver and Flagstaff, and also to serve between Phoenix and Salt Lake City via Flagstaff. By joining these two authorities at Flagstaff, ICX would be authorized to provide service between Denver and Salt Lake City; however, the route would be 630 miles or 123 percent greater than the short line mileage.

As time went on, such carriers would attempt to "straighten out" these routes by serving the more direct route, but other carriers which already had authority to serve the direct route could protest and block the change. The unfortunate carrier would have to continue to waste time and fuel by serving its route circuitously.

Limited Authority

Operating authority under strict ICC regulation was hard to get and subject to protest by incumbent carriers seeking to protect their existing business from increased competition. Moreover, if applicants were successful in obtaining new or additional operating rights, they were always subject to significant restrictions. Operating authorities were always specifically limited as to commodities, geographic region, routes or communities served. While many carriers expanded service options and geographic areas by merging with or purchasing other carriers with complementary operating rights, this often resulted in a hodge-podge of services, with certain services available over some routes and not others.

Not a single motor carrier had 48-state general commodity authority prior to 1980. In order to serve nationally, carriers

had to exchange traffic (and thus a share of the revenue) with other truckers having the appropriate operating rights -- a time consuming and expensive way of providing service to numerous points. In addition, this fragmented system of authorities meant that few of the 18,000 or so carriers were actually competing with each other for the same traffic.

Rate Regulation

Motor carrier rates were also subject to strict scrutiny by the ICC. Rate increases were subject to cost justification and protest by customers, which often led to lengthy investigations and hearings, and delayed implementation of carriers' requests for revenue increases.

On the other hand, requests by carriers for rate reductions met with protests from competitors concerned about loss of business. Again, the lengthy regulatory process often resulted in denial, on the ground that such rates might be noncompensatory (fail to cover costs) or might discriminate against one shipper over another.

Contract/Private Carriers Limited In Scope

Under regulation, contract and private carriers were limited in the scope of business they could perform. Contract carriers were limited to serving only eight shippers at any one time. Limiting the number of customers in this way hampered the growth of this segment of the trucking industry.

Private carriers were limited to carrying products or materials owned by the company itself. They were not permitted to obtain ICC authority. In most cases, private carriage, in order to be economically viable, had to be confined to short radius

operations, or others which could provide a round-trip haul for the equipment. Few firms had sufficient bi-directional volume. One historically successful example, however, was a large textile manufacturer that brought raw material cloth northbound and returned southbound with a load of finished clothing. For private carriers, the extra cost of empty mileage averaged about 27 percent.

Small Community Service

The Interstate Commerce Act requires common carriers to provide safe and adequate transportation on reasonable request, and authorizes the ICC to prescribe requirements for "continuous and adequate service." For many years it was assumed that ICC-regulated common carriers, who had a "duty to serve" all points authorized on their certificates of authority, provided such service on a continuous, adequate, and non-discriminatory basis. It was argued by many that this was the only guarantee of service to rural, small communities and that, under deregulation, these communities would lose service.

Until recently, ICC regulations required motor common carriers to provide service to the full extent of their certificated authority. However, ICC enforcement traditionally amounted to hearing shippers' complaints and cajoling reluctant carriers, but bringing only a handful of enforcement actions. The ICC rarely revoked a carrier's operating authority on grounds of providing inadequate service. Consequently, the "common carrier obligation" rarely served to guarantee any community adequate truck service.

In order to explore the potential effects of trucking deregulation on small communities, DOT studied existing trucking service to small communities in several states. These studies were conducted over the period 1975-1985. One such study (Nevada, Kentucky, and New Mexico) in 1979 found that shippers interviewed in these states were generally satisfied with their truck service -- but only because their expectations were quite low. That is, shippers in small, remote locations did not expect to receive good truck service from traditional common carriers, and they didn't get it. Most rural shippers who were contacted relied on a mixture of private carriage, UPS, and bus package express for most of their freight.

II. Deregulation Brought Changes

In 1980, Congress enacted landmark legislation to reduce federal economic regulation of the trucking industry. Since the Motor Carrier Act (MCA) took effect, evidence of the benefits of trucking deregulation has accumulated. Easier entry and greater ratemaking flexibility have allowed motor carriers to compete more freely with one another. New price and service options have been introduced, and the changed environment has required carriers to become more efficient and innovative.

Entry Reform

The Motor Carrier Act has worked well in removing a considerable regulatory burden on the trucking industry and permitting carriers to increase the efficiency of their operations. The MCA liberalized the ICC policy of granting authority to new firms and providing additional authority to existing firms, by reversing the burden of proof on prospective

applicants and placing it on those who protest: instead of requiring applicants to prove that their new service was required, protestants now have to prove that the new service is not in the public interest.

These liberalizations included removal of inefficient operating restrictions on existing carriers, thus allowing carriers to serve larger areas, carry additional commodities, and serve intermediate points on existing routes. Carriers now requesting operating rights under the ICC's simplified licensing procedures can expect to receive authority in broad commodity classifications, nationwide, or in a sizable region of the country.

Carriers now compete more freely with each other because of liberal entry policy, removal of inefficient operating restrictions, and greater ratemaking flexibility. For example, the ICC has granted more than 80,000 operating authorities since the MCA took effect in July of 1980. Carriers can now obtain 48-state operating authority; limits on the number of customers served by contract carriers have disappeared; carriers have more flexibility in leasing drivers and equipment; and private carriers can now transport freight for any wholly-owned subsidiaries of the parent corporation, and can also obtain for-hire authority to help reduce their empty backhauls.

Rate Regulation More Relaxed

Once a carrier has gone through the operating authority application process, however, the paper chase continues. Each of a common carrier's rates must be filed with the ICC, and this statutory requirement causes well over a million tariffs to be

sent to Washington each year. Estimates suggest that as many as 30 trillion motor common carrier rates are on file at the ICC.

Although the tariffs of common carriers must still be filed, the Commission has significantly relaxed its rate regulation oversight. (Contract carriers are exempt from tariff filing requirements.) Rates filed independently within the zone of rate freedom are not subject to a reasonableness test as to whether they are too high or too low. Any protest of these rates places the burden of proof upon the complainant and not the motor carrier. Rates made and filed on a truly independent basis are more likely to reflect free market considerations than those established collectively and filed under the cover of antitrust immunity.

III. Results Of Reform

As entry into the trucking industry grew easier, the number of carriers with ICC authority has grown from approximately 17,000 to over 40,000. The previous tight entry policy was especially effective in keeping out would-be carriers owned or controlled by minorities. Since 1980, the number of carriers controlled by women and minorities has grown from 133 to 1,910. New entrants have generally begun as small truckload carriers, but a number have grown quite large. Many existing less-than-truckload (LTL) carriers also expanded the geographic scope of their authorities, bringing actual or potential competition into many new markets. The net result has been that competition has increased in most origin-destination markets, even if the total number of LTL carriers has remained constant or decreased slightly.

Prior to the MCA, some had expressed concern that small and rural communities would lose all truck service after regulatory reform.

This fear has not been substantiated. Many of the rural shippers and receivers surveyed are small businesses. The most recent phase of one survey (1984-1985) reached essentially the same conclusions as the previous post-deregulation phases (1980-1983): service quality and quantity have improved or remained the same for the vast majority of shippers and receivers located in small communities surveyed in this investigation.

In fact, the number of competing carriers serving rural areas has increased, on balance, since the passage of the MCA. Improvements in service quality and competition have been reported ten times more often than deteriorations, regardless of the remoteness of the shipper or receiver's location.

Overall, 98 percent of all respondents to the study thought that post-deregulation truck service was as good as or better than before. Moreover, shippers and receivers in very remote areas were as satisfied with their truck service as were small community respondents in more accessible areas: 97.3 percent of the really rural shippers and receivers -- those more than 25 miles from an interstate highway -- reported that overall service quality was as good as or better than pre-deregulation service.

Subsequent to enactment of the MCA of 1980, the increased competition made possible by partial deregulation exerted downward pressure on motor carrier rates. A 1983 study by Thomas Gale Moore showed that, between 1978 (when the ICC began a series of

administrative reforms) and 1982, truckload rates declined by 24 percent and LTL rates fell by 15 percent.

Carriers also were able to improve their operations, as the possession of expanded operating authority permitted them to operate more efficiently by reducing empty backhauls and increasing their load factors. However, the converse was also true: in some cases, load factors actually decreased, reflecting the fact that some shippers are willing to pay more for premium service to support their manufacturing or distribution operations (using "just in time" inventory management).

Some have expressed concern about motor carrier bankruptcies, particularly as some large, well-established companies have failed. It was anticipated at the time of the passage of the MCA that some weaker companies might not be able to withstand the added competition the Act encouraged. Many failed carriers were unprofitable even before partial deregulation. Further, the 1979-82 recession and its aftermath reduced the available traffic base and seems to have been the major cause of trucking failures, not the MCA.

According to the industry, a large number of motor carriers have failed. Weak management and overly ambitious expansions and mergers also led to some carrier downfalls. Unionized trucking firms, for example, have had difficulty competing with lower cost firms. However, many union carriers, including United Parcel Service and the other top three regulated carriers, are generally doing well, with operating ratios that are much better than the industry average. Both motor carrier failures and overall business failures have gone up substantially in the 1980's,

providing evidence that general factors in the economy have been more important than the MCA as a cause of motor carrier failures. For example, motor carrier failures doubled from a level of 610 in 1981 to 1,228 in 1983. Over that same period, total U.S. business failures almost doubled from 16,794 to 31,334. More recent data shows the failure rate for motor carriers and all businesses have continued at a high rate even after the recession has ended, although the rate of failures seems to have turned downward after 1986.

In addition, the ICC's implementation of the MCA reforms allowed private carriers to enhance their operating efficiency by also engaging in for-hire operations. This practice, which was severely limited prior to reform, has allowed private carriers to fill otherwise empty backhauls and reduce their costs per mile.

Since 1982, Professors Beilock and Freeman have interviewed approximately 10,000 drivers of refrigerated trucks as they exit the state of Florida. This long term study has found that empty backhauls (return trips into Florida) have dropped dramatically in recent years. For example, since 1982-83, the percentage of private carrier trucks re-entering Florida empty has fallen from 58 percent to about 10 percent. In the case of for-hire fleets, empty return movements have dropped from 17 percent to only 5 percent in 1988-89.

Shippers, including small businesses, now play a far more active role in the distribution process. They have a hand in negotiating rates and a greater choice in selecting carriers. They can consolidate shipments themselves or through third parties, including brokers and shipper associations, contract for

particular services, and work with carriers to design transportation services best meeting their overall needs. Consequently, the benefits of truck deregulation extend well beyond the availability of lower rates to shippers.

A 1987 study by Robert Delaney (then an executive of a major transportation company) estimated that the 1980 transportation reforms had enabled a "revolution" in the way U.S. industry handles its logistics and transportation functions. The costs of these functions represented more than 14 percent of Gross National Product (GNP) in 1979-1981; however, by 1986 they represented only 11.1 percent of GNP. Total savings were estimated by Delaney to range from \$56 to \$90 billion per year. These savings, he argued, could not have come about in the absence of deregulation.

Although the Delaney estimates were criticized by some in the trucking industry as being unrealistically high, a DOT-sponsored review of the debate found that the methodology and basic arguments advanced by Delaney were sound. It also revised the estimate of the savings obtained since deregulation, and found that total savings from freight deregulation (rail, trucking, and air) averaged approximately \$38 billion per year. Although not all of the savings could be attributed solely to deregulation, they would likely not have occurred in its absence.

Finally, questions have been raised about the possible effect of relaxed motor carrier entry on highway safety. We have carefully monitored the trucking industry's safety record since implementation of the Motor Carrier Act of 1980 and have found no valid statistical evidence linking the presence or absence of economic regulation with the safety performance of motor carrier

operations. Fatal accidents, fatalities, and injuries involving large combination trucks have been consistently lower since 1980 than they were in the prederegulation years of 1978 and 1979.

The fatal accident rate per million miles driven by these trucks has fallen by one-third since that time.